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October 22, 2007

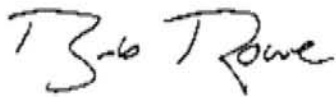
Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington DC 20554

Re: WC Docket No 05-337, CC Docket No. 96-45 – *Ex Parte* Presentation

Dear Ms. Dortch:

On October 22 John Jones, Jeff Glover and Robert Shannon of CenturyTel, CenturyTel's Washington attorney Greg Vogt, Mike Balhoff, Brad Williams and the undersigned, of Balhoff, Rowe & Williams met by telephone with Members and Staff of the Federal-State Joint Board on Universal Service; specifically, Commissioner John Burke of Vermont, Commissioner Larry Landis of Indiana, staff member Peter Bluhm of Vermont.

Sincerely,



Robert C. Rowe
Senior Partner

cc: Hon. Larry Landis, Hon. John Burke, Peter Bluhm

**EX PARTE PRESENTATION TO
FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE
Achieving Critical Policy Objectives Through Focused, Actionable Reforms**

October 22, 2007

EXECUTIVE SUMMARY

- CenturyTel supports universal service reforms that will quickly bring stability to the program and that have the greatest likelihood for broad acceptance and swift implementation.
- CenturyTel offers five reasonable steps to meaningful, achievable reform.
- Targeted reforms should be grounded in key policy objectives that modernize universal service, achieve advanced services deployment objectives and promote overall fund stability.
- Reform is critical in order to foster stability and support critical to future infrastructure investment, expansion and maintenance.
- There is only a limited amount of funding available so targeted reforms should be linked with positive consumer outcomes and benefits.
- The Competitive Eligible Telecommunications Carrier (CETC) regime should be reformed by measures including
 - Immediately eliminating the "identical support" rule and basing support on the recipient's own costs.
 - Moving to implement a separate "mobility" fund based on defined objectives against which recipients will be held accountable.
- Flexibility is needed for incumbents to better target High Cost Fund support more closely with the costs of providing COLR service in specific areas.
- A separate, capped broadband program should be considered for the highest cost areas without broadband services today.
- Other important reforms are not currently before the Joint Board, but would be consistent with the specific actions the Joint Board may now take. These include:
 - Immediate adoption by the Commission of the Joint Board's well-considered "interim cap" recommendation.
 - Final reform of the contribution methodology

Five Steps to Meaningful Universal Service Reform

1. Stabilize the Fund

- Adopt the Joint Board's recommendation for an interim cap. The Joint Board's recommendation has been strongly endorsed by a diverse group of carriers, notably including both AT&T and Verizon, as well as by at least twenty-six letters of support from members of Congress.
 - The interim cap is the logical and least harmful first step toward both short and long term reform and workable solutions.
- Implement a numbers/connections universal service contributions methodology.
- RLECs should be able to elect a freeze of existing high cost support at a specified time to stabilize revenues and enable necessary funding support for high cost study areas that may be at risk under the present formula.

2. Link Disbursements with Accountability

- For maximum consumer benefit, competitively neutral COLR requirements must apply to universal service disbursements for all USF carrier-recipients and must be combined with clear obligations/accountability.
- The near-term reform should include the following elements:
 - The receipt of universal service dollars should be tied to demonstrated cost of investment/service from all recipients.
 - Immediate elimination of the identical support rule.
 - CETC support should be limited to true high cost support only and not IAS, ICLS or other access replacement fund sources unless there is demonstration that there is a cost justification.
 - Auctions may be considered to reduce multiple mobile wireless CETCs in ILEC study areas, possibly basing the selection on adherence to COLR and other obligations.

3. Develop a Separate, Well-Defined Mobility Program

- A separate, limited mobility program should be established for all CETCs to ensure coverage in unserved areas and maintain wireless infrastructure.

- The program would be funded in the same manner as all other Universal Service programs via existing or new contribution mechanisms.
- Eligibility for funding should be based on meeting specific obligations consistent with the purposes for which support is provided. These could include serving areas not otherwise served by wireless carriers and meeting E-911 and public safety obligations.
- To control pressure on the fund, clear requirements should be established for caps, eligibility, certification and number of handsets supported.

4. Develop a Separate, Well-Defined Broadband Program

- A separate, limited, technology-neutral broadband program should be established for unserved and highest cost areas.
- The program would be funded jointly through some savings from access replacement funds that are reformed to eliminate unnecessary CETC funding and through the existing or new contribution mechanism.
- Consider a 2-track eligibility requirement based on 1) aid to construction for highest cost areas after investment has been made; and/or 2) a commitment to increase availability of evolving speeds to achieve reasonable comparability to services that are available in urban areas.

5. Review Reforms for Public Interest Outcomes

- The FCC and Joint Board should review contributions, disbursements, voice and broadband availability within 24 months from the time of the initial reform implementation to determine if key outcomes are achieved.
- Additional, more comprehensive reforms should be considered to accommodate new technologies, market conditions and consumer demand.

Additional Discussion

I. Universal Service Reform: The Need for Stability to Support Critical Infrastructure Investment

- **Modernization of USF is critical.** An improved and modernized Universal Service Program is critical for supporting high quality infrastructure and future investment that benefits customers in high-cost regions, including deploying broadband in hard-to-serve markets.
- **Policy stability is needed to support investment.** Investors require greater policy stability and clarity surrounding the Universal Service Program. Ongoing uncertainty makes it increasingly difficult to provide advanced services, gain access to capital and meet the investment and operating needs of all customers - retail and wholesale - in high-cost areas.
- **Actionable steps based on financial realities and clear public policy principles are needed.** The FSJB and FCC have the opportunity to take important, realistically achievable steps that will provide a needed glide path for stability, favorable policy outcomes and greater consumer benefit. The Joint Board's recommendations should be based on a clear understanding of the longer-term financial realities and clear public policy principles, including an understanding of the linkage between USF and carrier-of-last-resort obligations.
- **Focused reforms have been proposed in the current system to minimize the loss of infrastructure support to many rural areas.** Larger rural carriers, including CenturyTel, are actually losing high cost fund support, quarter over quarter, as a result of the operation of the current funding formula.
- **Multiple goals including mobility require distinct and well-defined programs.** Universal access to reliable core network infrastructure, targeted support for further broadband deployment in rural markets and access to mobile voice services should be achievable through the reform process, but will require a better recognition of the differences in technology, economics, regulatory structure and consumer uses for each platform.

II. Linking Reform with Consumer-Focused Outcomes: Key Considerations

Carrier of Last Resort and USF

- **Sharpen COLR obligations for USF.** Strengthening COLR obligations raises the bar for all providers, achieves technology and competitive neutrality and produces meaningful results for telecom customers.
- **COLR provides a useful theoretical foundation.** COLR permits policymakers to better link public support with a public benefit; and it provides a better path to avoiding the theoretical problems associated with “competitive neutrality”; if there is a single wireline and a single wireless COLR provider in a rural, high cost region, it also can reduce the funding obligations for specific services. The Joint Board has already been provided an analysis explaining the financial challenges carriers face in providing COLR.
- **COLR would be implemented through three elements.** Meaningful COLR obligations must be linked to the receipt of universal service funding to achieve: 1) actual investment or build-out requirements and ongoing maintenance expenses, 2) true and measurable consumer benefits/obligations (service quality definitions), and 3) clearly-defined accountability systems for reporting through policymakers to the public. The net result should include better control over the growth of the High Cost Fund.

III. CETC Reform Makes Sense From a Consumer Perspective

- **Recognition that mobility is a consumer-benefit, not competitive-neutrality.** Mobile wireless services in most rural markets provide a specific benefit to consumers—with lesser reliability and throughput, but real convenience; in rural areas, mobile wireless is not always as much a pure competitor to wireline access services, but is a more correctly a complementary service with different advantages and limitations.
- **Elimination of identical support rule.** The identical support rule is seriously flawed as the CETC system is not “identical” except in terms of per-line payments, since it is not based on investment-driven support and does not require the fulfillment of any obligations. Both forward-looking and embedded methodologies are based on evaluation of costs to provide a specific (wireline) service. “Identical” support is based on another carrier’s costs (whether forward looking or embedded) and has led to wasteful and troubling results.
- **Distinct CETC program with distinct “systems.”** Create a separate fund for CETCs with clear principles, obligations (possibly including COLR duties, capacity, reliability, ubiquity, E-911), and accountability provisions.

- **Auctions possible for mobile CETC designation.** Various auction approaches could be considered for providing infrastructure support for mobile CETCs.
- **Benefits include potentially focusing funding on single wireless mobile carrier.** Funding requirements for one mobile COLR provider could be reduced by approximately one-third of the current CETC obligation; and growth in funding would be better controlled.

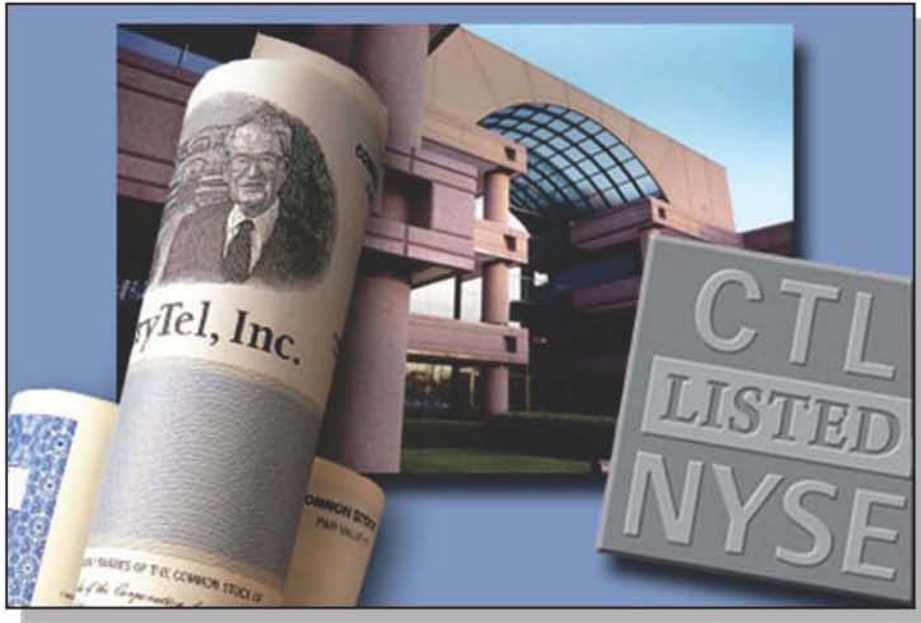
IV. Targeting USF Monies to More Specific High-Cost Regions

- **Investment support is generally required outside population centers.** CenturyTel supported the Texas study on USF and targeting; report highlighted that positive returns on investment are generally concentrated in towns within rural regions, while areas outside of towns are demonstrably USF-dependent.
- **Competitors generally do not now serve high-cost regions outside rural towns, and appear unlikely to serve those areas.** CenturyTel notes that there is little competitive activity outside population centers and the investment costs make it unlikely that wireline competitors will serve those customers in the foreseeable future.
- **Targeted competition in population centers is undercutting the current USF system based on internal company cross-subsidies.** Policymakers have relied on monopoly-based support systems based on regional averaging of support and on internal company cross-subsidies which are failing to cope with emerging competitive patterns.



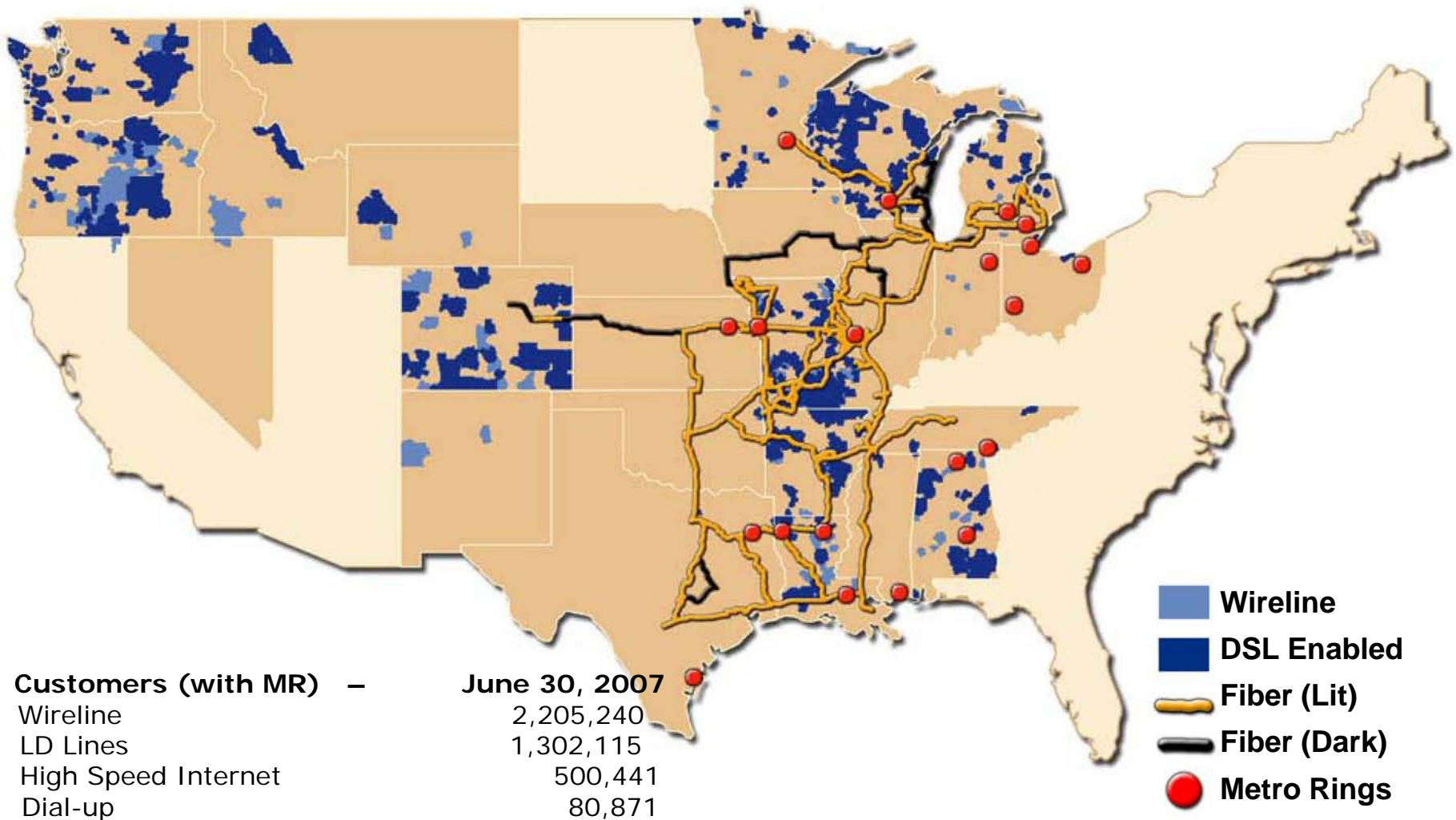
CenturyTel Overview

CenturyTel Today:

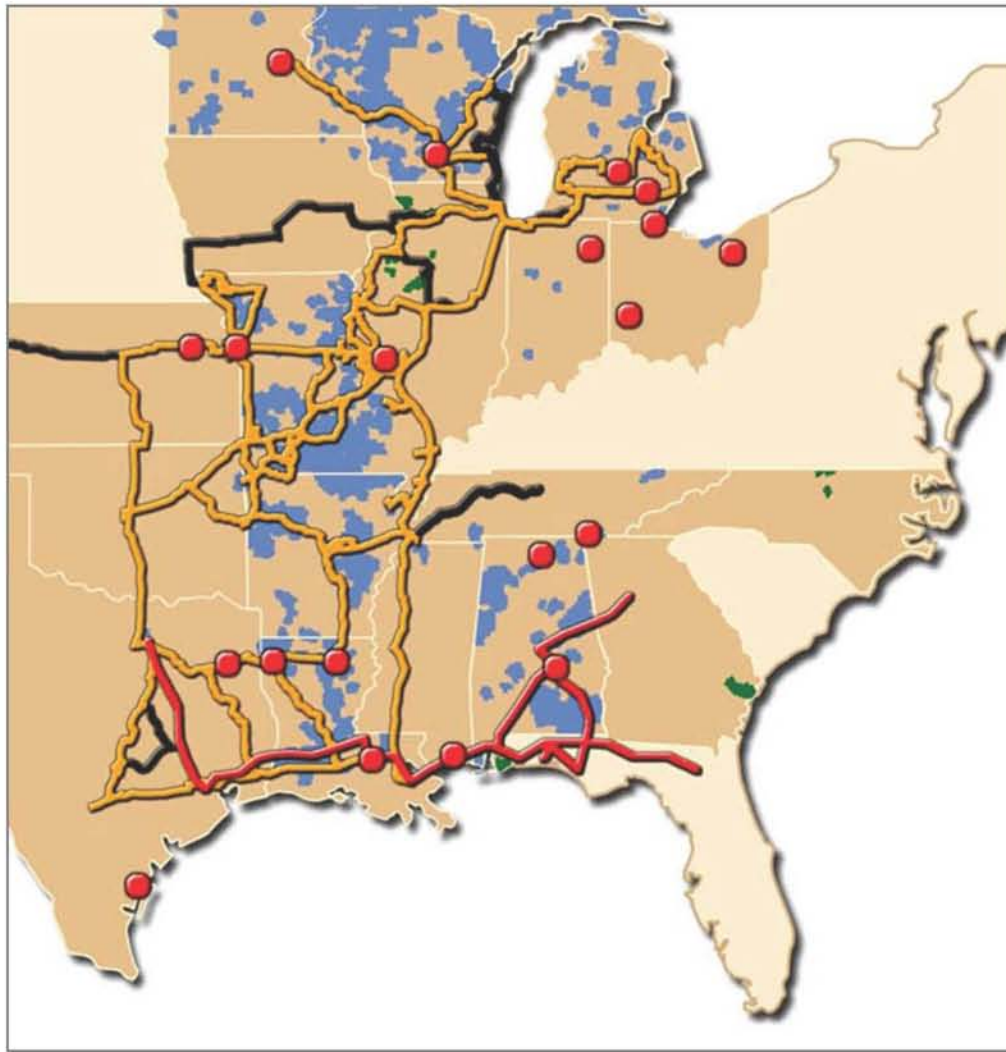


- ◆ **A Leading Provider of Integrated Communications Services**
- ◆ **7th Largest ILEC in the US, Serving Rural Areas and Small to Mid-Size Cities**
- ◆ **Pursuing Aggressive Broadband Deployment and Market Penetration**
- ◆ **Anticipating and Meeting Our Customers' Communications Needs**

ONE Network Focus



Combined Operations



-  CenturyTel Wireline
-  Madison River Wireline
-  LightCore Fiber
-  LightCore Fiber (Dark)
-  Madison River Fiber
-  Competitive Market